

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2005-74-W/S - ORDER NO. 2005-492
SEPTEMBER 12, 2005

IN RE: Application of Melrose Utility Company,)	ORDER APPROVING
Incorporated for Approval of Adjustment in)	AND ADOPTING
Rates and Charges for Water and Sewer)	SETTLEMENT
Services.)	AGREEMENT

The above-captioned matter is before the Public Service Commission of South Carolina (“Commission”) on the proposed Settlement Agreement (“the Settlement Agreement”) filed by the Office of Regulatory Staff of South Carolina (“ORS”), Melrose Property Owners Association, Inc. (“POA”), and Melrose Utility Company, Inc. (“MUC”) (hereinafter collectively referred to as the “Parties” or sometimes individually as a “Party”). It is acknowledged that the parties to the Settlement Agreement are the only parties of record in this docket.

This matter was initiated on March 24, 2005, when MUC filed an application for approval of an adjustment in its rates and charges for water and sewer services with the Commission. Settlement negotiations resulting in the agreement between the Parties in this case were concluded on August 1, 2005, and resulted in the agreement signed by the parties on August 12-16, 2005. The Parties have all determined that their interests, as well as those of the general public, are best served by settling the dispute in this matter under the terms and conditions set forth below.

By signing the Settlement Agreement, all counsel acknowledged their respective clients' consent to its terms. The Settlement Agreement provided that the parties all viewed the terms of the agreement to be fair and reasonable.

The hearing held before the Commission on August 25, 2005 therefore took the form of a settlement hearing. At the settlement hearing, ORS presented the testimony of Ms. Dawn Hipp. Ms. Hipp provided an overview of the Settlement Agreement and stated the opinion of the ORS that the agreement was in the public interest, would allow MUC to continue to provide water and wastewater services to its customers, and would promote the conservation of water resources. By Commission Directive dated September 7, 2005, the Commission ordered that the Settlement Agreement and corresponding rates and charges be accepted into the record without objection. The rates for residential and commercial water, sewer, and irrigation are specified in Exhibit 1 to the Settlement Agreement which is attached to and incorporated as a part of this Order as Attachment 1.

We find that the rates agreed to by the parties are fair and reasonable and that such allow MUC to continue to provide its customers with adequate water and wastewater service as well as to promote the conservation of water resources. The parties also reached an agreement as to performance bonds, complaints, billings, reports on South Carolina Department of Health and Environmental Control (DHEC) violations, and on a manner in which to address an unapproved charge for irrigation water service, as specified in the Settlement Agreement.

The Parties all agreed, and this Commission finds, that an increase in water and sewer rates is necessary in this matter. MUC has not applied for any increase in its rates

since its rate filing was approved by this Commission in 1987. Since that time, MUC's costs of providing service have increased so that it can no longer earn a fair return on its investment. The Parties therefore agreed and stipulated to certain rates and charges which we hereby approve and which are specified in Exhibit 1 to Attachment No. 1 attached hereto. We agree with the Parties that the rates and charges contained in the Settlement Agreement are fair and reasonable, allow MUC to continue to provide its customers with adequate water and wastewater services, and promote the conservation of water resources.

The Parties agreed to, and we hereby approve, an increase in the performance bonds of MUC and hereby set performance bonds in the amount of \$140,000 for water and \$140,000 for sewer. We further approve the requirement contained in the Agreement whereby MUC shall be required to maintain accurate records of consumer service complaints and resolution of any complaints. MUC is further required to make rates, rules, regulations, maps and plans available for public inspection within its service territory. MUC agrees to include language on customer bills concerning the customer's right to file complaints with the Commission, and MUC agrees to report all DHEC violations and alleged violations to the Commission. MUC agrees to format customer billing properly to include service dates, due date, after hours telephone number, and rate schedule. MUC further agrees to correct its billing database to reconcile any water/sewer consumption variances and make appropriate customer account adjustments for any over or under charges collected as a result of MUC's calculation errors. Finally, MUC agrees to credit the accounts of customers charged a minimum use fee of \$5.00 for irrigation

water service as that rate is not approved by the Commission. This account adjustment will be credited to the customers on the September 2005 billing statement.

The Commission is satisfied with the information and statistics contained in the Exhibits to the Settlement Agreement and that the terms and conditions set forth in the Agreement are fair and equitable to the Parties as well as to the MUC customers affected by the rates and fees approved by this Order.

After careful review and consideration of the Settlement Agreement, the evidence of record, the testimony of the witness and the representations of counsel, the Commission concludes as a matter of law that (i) approval of the Settlement Agreement is in the public interest; (ii) the residential and commercial rates and fees for both water and sewer agreed to by the Parties and as set forth in Attachment No. 1 attached hereto are both reasonable and prudent; (iii) performance bonds in the amount of \$140,000.00 for water and \$140,000.00 for sewer are fair and reasonable and in the public interest.

An examination of Settlement Agreement Exhibit 2, attached hereto, reveals that, based on the operating revenues, income, and expenses agreed upon by the parties, an operating margin for MUC of 9.34% was calculated. We hereby approve an operating margin of 9.34% for this Company.

IT IS THEREFORE ORDERED THAT:

1. The Settlement Agreement, including its attached exhibits, is attached hereto as Attachment No. 1, is accepted into the record without objection, and is incorporated into and made part of this Order by reference. Further, the Settlement

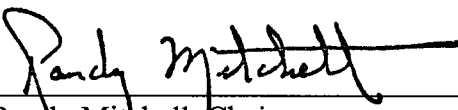
Agreement is found to be in the public interest and constitutes a reasonable resolution of this proceeding.

2. The statement of proposed rates attached to the Settlement Agreement (Exhibit 1 thereto) and is entered into the record of this case without objection. We find that the proposed rates are both fair and reasonable and will allow MUC to continue to provide its customers with adequate water and wastewater services. We further find that these rates will promote the conservation of water resources.

3. An operating margin of 9.34% is approved for MUC.


4. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



Randy Mitchell, Chairman

ATTEST:



G. O'Neal Hamilton, Vice Chairman

(SEAL)

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2005-74-W/S

FILED
AUG 17 PM 4:24
PUBLIC SERVICE
COMMISSION

IN RE:

Application of Melrose Utility)
Company, Inc. for Approval of an)
Adjustment in Rates and Charges)
For Water and Sewer Services)
_____)

SETTLEMENT AGREEMENT

This Settlement Agreement is made by and among the Office of Regulatory Staff of South Carolina ("ORS"), Melrose Property Owners Association, Inc. ("POA"), Melrose Utility Company, Inc. ("MUC") (hereinafter collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, on March 24, 2005, MUC filed an Application for Approval of an Adjustment in Rates and Charges for Water and Sewer Services ("Application") with the Public Service Commission of South Carolina ("Commission");

WHEREAS, the Parties to this Settlement Agreement are parties of record in the above-captioned docket and there are no other parties of record in the above-captioned proceeding;

WHEREAS, the Parties have engaged in discussions, most recently on August 1, 2005, to determine whether a settlement of this proceeding would be in their best interests;

WHEREAS, following those discussions the Parties have each determined that their interests and the public interest would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. The Parties agree that an increase in water and sewer rates is necessary. MUC has not applied for an increase in rates in the 18 years since its initial rate filing was approved in 1987. The current rates do not enable MUC to cover its costs of providing service and earn a fair return on its investment. The Parties agree that the statement of stipulated rates attached hereto and made a part hereof as Settlement Agreement Exhibit 1 is fair and reasonable and allows MUC to continue to provide its customers with adequate water and wastewater service.
2. The resultant operating margin based on the stipulated rates is attached hereto and made a part hereof as Settlement Agreement Exhibit 2.
3. The service revenue analysis is attached hereto and made a part hereof as Settlement Agreement Exhibit 3.
4. MUC agrees to follow the recommendations of ORS witness Dawn M. Hipp outlined in her direct testimony. MUC agrees, among other things, to increase its performance bonds to the amount of \$140,000 for water and \$140,000 for sewer. MUC shall maintain accurate records of consumer service complaints and resolution of any complaints. MUC agrees to make rates, rules, regulations, maps and plans available for public inspection at its office on Daufuskie Island. MUC agrees to include language on customer bills concerning the customer's right to file complaints with the Commission, and MUC agrees to report all DHEC violations and alleged violations to the Commission. MUC agrees to format customer billing properly to include service dates, due date, after

hours telephone number, and rate schedule. MUC further agrees to correct its billing database to reconcile any water/sewer consumption variances and make appropriate customer account adjustments for any over or under charges collected as a result of MUC's calculation errors. Finally, MUC agrees to credit the accounts of customers charged for a minimum use fee of \$5.00 for irrigation water service as that rate is not approved by the Commission. This account adjustment will be credited to the customers on the September 2005 billing statement.

5. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission Order issued approving this Settlement Agreement and the terms and conditions contained herein.

6. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair in any way their arguments or positions they may choose to make in future proceedings. If the Commission should decline to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty.

7. The Parties agree that the Commission does not determine the rate for availability fees.

8. This agreement shall be interpreted according to South Carolina law.

9. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where

indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of this Settlement Agreement. Facsimile signatures and email signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

10. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony of ORS witness Dawn M. Hipp, without amendment, objection or cross-examination. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony of ORS witness Daniel F. Sullivan, without amendment, objection or cross-examination and without testifying at the hearing. The Parties agree that no other evidence will be offered in the proceeding by the Parties other than this Settlement Agreement with Settlement Agreement Exhibits 1-3 hereto attached.

11. The Parties agree to withdraw the pre-filed testimony and exhibits of Elizabeth J. Oliver and Christopher J. Hutton.

WE AGREE:

Representing and binding the Office of Regulatory Staff:



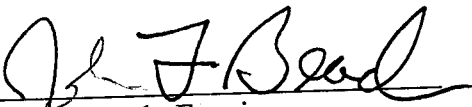
DATE: August 15, 2005

C. Lessie Hammonds, Esquire
Office of Regulatory Staff
1441 Main Street, Suite 300
Columbia, SC 29201
Phone: (803) 737-0863
Fax: (803) 737-0800
Email: lhammon@regstaff.sc.gov

The POA has not independently audited the books and records of MUC. The POA joins in this agreement as to the rates and charges agreed upon without representation as to the accuracy of the Exhibits 2 or Exhibits 3.

WE AGREE:

Representing and binding the Melrose Property Owners Association, Inc.:

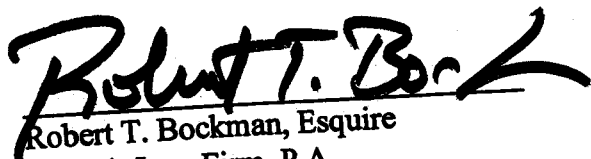


John F. Beach, Esquire
Ellis, Lawhorne & Sims, P.A.
1501 Main Street, 5th Floor
Columbia, SC 29202
Phone: (803) 343-1269
Fax: (803) 779-4749
Email: jbeach@ellislawhorne.com

DATE: August 16, 2005

WE AGREE:

Representing and binding the Melrose Utility Company, Inc.



Robert T. Bockman, Esquire
McNair Law Firm, P.A.
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DATE: August 12, 2005

SETTLEMENT AGREEMENT EXHIBIT-1**MELROSE UTILITY COMPANY, INC.**
2005-74-WS**STATEMENT OF STIPULATED RATES - SETTLEMENT****RESIDENTIAL:****WATER:**

	\$500.00
Tapping Fee & ¾" Meter box	\$19.50
Base monthly charge (includes 0-7,500 gallons usage)	\$1.77
Water usage charge over 7,500 gallons (per 1,000 gallons)	

SEWER:

	\$500.00
Tapping fee and service lateral	\$19.50
Base Monthly Charge (includes 0-7,500 gallons usage)	\$1.41
Usage charge over 7,500 gallons (per 1,000 gallons)	

IRRIGATION:

	\$500.00
Tapping Fee and ¾" Meter box	\$1.20
Water usage charge (per 1,000 gallons)	

COMMERCIAL:**WATER:**

	\$250.00
Tapping Fee per hotel/inn room	\$400.00
Tapping Fee per cottage	\$500.00
Tapping Fee up to 1.5" water meter	\$1,500.00
Tapping Fee for 2" or 3" water meter	\$3,500.00
Tapping Fee for 6" water meter	\$33.00
Base Monthly Charge (includes 0-7,500 gallons usage)	\$1.41
Water usage charge over 7,500 gallons (per 1,000 gallons)	

SEWER:

	\$250.00
Tapping Fee per hotel/inn room	\$400.00
Tapping Fee per cottage	\$500.00
Tapping Fee for 4"-6" service lateral	\$33.00
Base Monthly Charge (includes 0-7,500 gallons usage)	\$1.41
Usage charge over 7,500 gallons (per 1,000 gallons)	

All special conditions (tapping fees, backflow prevention, and system development charge) remain as in original tariff.

SETTLEMENT AGREEMENT EXHIBIT 2

MELROSE UTILITY COMPANY, INC.
OPERATING EXPERIENCE AND OPERATING MARGIN
TEST YEAR ENDED NOVEMBER 30, 2004

Description	(1) Per Books	(2) Accounting & Pro Forma Adjustments	(3) As Adjusted	(4) Effect of Proposed Increase	(5) After Proposed Increase
	\$	\$	\$	\$	\$
<u>Operating Revenues</u>					
Availability Fees	95,580	10,500	106,080	44,616	150,696
Water/Sewer - Residence	22,915	878	23,793	7,764	31,557
Water/Sewer - Commercial	46,709	29,795	76,504	37,324	113,828
Water-Minimum Use	270	(90)	180	(180)	0
Irrigation - Commercial	10,170	(1,053)	9,117	0	9,117
Irrigation - Residence	4,398	74	4,472	0	4,472
Sewer - Minimum Use	270	(90)	180	(180)	0
Tap Fees - Water	3,750	(3,750)	0	0	0
Tap Fees - Sewer	3,550	(3,550)	0	0	0
<u>Total Operating Revenues</u>	187,612	32,714	220,326	89,344	309,670
<u>Operating & Maintenance Expenses</u>	110,310	(7,210)	103,100	0	103,100
General & Administrative Expenses	151,349	1,803	153,152	671	153,823
Depreciation & Amortization Expense	27,934	(11,479)	16,455	0	16,455
Taxes Other Than Income	3,042	(2,043)	999	375	1,374
Income Taxes	233	(233)	0	6,722	6,722
<u>Total Operating Expenses</u>	292,868	(19,162)	273,706	7,768	281,474
<u>Net Operating Income(Loss)</u>	(105,256)	51,876	(53,380)	81,576	28,196
Customer Growth	0	0	0	718	718
<u>Total Income(Loss) For Return</u>	(105,256)	51,876	(53,380)	82,294	28,914
<u>Operating Margin</u>	-56.10%		-24.23%		9.34%
<u>Interest Expense for Operating Margin</u>	0		0		0

SETTLEMENT AGREEMENT EXHIBIT-3

MELROSE UTILITY COMPANY, INC.
2005-74-WS
SERVICE REVENUE ANALYSIS
FOR TEST YEAR ENDING NOVEMBER 30, 2004

ORS Service Revenue Analysis at Stipulated Rates

Customer Classification	Bill Code	Customer # as of 11/30/04	Total Bills issued during test year (1)	Base Charge/Mo.	Base Charge/Quarter	Base Charge Revenue at Stipulated Rates	Billable Water Usage in Gallons (2)	Water Usage at Stipulated Rates	Total Revenue at Stipulated Rates
Water-Residential	W1	56	224	\$19.50	\$58.50	\$13,104.00	1,684,307	\$2,982.00	\$16,086
Water-Commercial	W2	40	160	\$33.00	\$99.00	\$15,840.00	9,053,167	\$12,764.97	\$28,605
Irrigation-Residential	W3	15	60	\$0.00	\$0.00	\$0.00	3,726,435	\$4,471.72	\$4,472
Irrigation-Commercial	W4	18	72	\$0.00	\$0.00	\$0.00	7,597,114	\$9,116.54	\$9,117
Water-Minimum Use	W5	1	4	\$0.00	\$0.00	\$0.00	0	\$0.00	\$0
Water-Commercial/2 Units	W6	31	124	\$66.00	\$198.00	\$24,552.00	2,603,140	\$3,964.50	\$28,516
Sewer-Residential	S1	56	224	\$19.50	\$58.50	\$13,104.00	1,678,587	\$2,366.81	\$15,471
Sewer-Commercial	S2	40	160	\$33.00	\$99.00	\$15,840.00	8,967,867	\$12,644.69	\$28,485
Sewer-Commercial/2 Units	S3	31	124	\$66.00	\$198.00	\$24,552.00	2,603,140	\$3,670.43	\$28,222
Sewer-Minimum Use	S5	1	4	\$0.00	\$0.00	\$0.00	0	\$0.00	\$0
Availability Fees - Melrose	AV-MR	240	960	\$39.00	\$117.00	\$112,320.00	0	\$0.00	\$112,320
Availability Fees - Bloody Point	AV-BP	82	328	\$39.00	\$117.00	\$38,376.00	0	\$0.00	\$38,376
Totals						\$257,988.00	37,913,756	\$51,981.65	\$309,670

Comments:

- (1) Total number of invoices issued during the test year as computed by ORS.
- (2) Billable water usage as reported by MUC on the Master Activity Report for each billing period.
- (3) Availability Fees are billed, collected and used as operating revenue and included in this analysis.